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Mizuho Dealer's Eye

September 2024

Mizuho Bank, Ltd.

Global Markets Sales & Trading Department

Motoi Ito, Forex Sales, Global Markets Sales & Trading Department

U.S. Dollar – September 2024

Expected Ranges **Against the yen: JPY141.00–151.00**

1. Review of the Previous Month

The yen was bought and the dollar sold throughout August on the contents of BOJ governor Kazuo Ueda's press conference after the BOJ's Monetary Policy Meeting at the end of July.

(Week 1) The dollar/yen pair opened the month trading at 149.78 yen on August 1. With liquidity thin, the pair moved bearishly as the Nikkei Stock Average weakened. Japanese stocks also fell sharply on August 2, so the pair move with a heavy topside. With the US July employment data then dropping below expectations, the pair weakened to 146.40 yen.

(Week 2) BOJ governor Kazuo Ueda made some hawkish comments on August 5. The markets were still reeling from the weekend's release of the bearish US July employment data, so the currency pair fell in tandem with Japanese stocks to plummet to a monthly low of 141.68 yen. It then climbed to 146.30 yen on August 6 as the Nikkei Stock Average bounced back. The yen was sold and the pair strengthened to 147.90 yen on August 7 on the contents of a speech by BOJ deputy governor Shinichi Uchida. With a holiday looming, though, the dollar was sold on real demand towards the end of the week, so the pair fell to 146.60 yen.

(Week 3) With Japan on holiday, the pair soon rose to the lower-148 yen mark amid thin trading on August 12. The pair dropped to the mid-146 yen level again on August 13 as the US July Producer Price Index fell below expectations. The yen was bought on August 14 on news that Japan's prime minister Fumio Kishida would not seek re-election as the LDP's leader. However, the US released some firm July retail sales data on August 15, so the currency pair rose to hit a monthly high of 149.40 yen.

(Week 4) The pair fell to the lower-145 yen mark on August 19 on news that a Canadian company would be buying a Japanese firm, though the pair soon rallied to the mid-146 level as US interest rates leveled out and US stocks rose. The minutes to the July FOMC meeting were released on August 21 and they struck a positive tone about the commencement of rate cuts, so the pair fell to the 144 yen range on dollar selling and yen buying. However, it then rose to the mid-146 yen range on some firm US PMI results and comments by FRB officials. The yen was pushed up by comments by BOJ governor Kazuo Ueda at a parliamentary session on August 23, though its gains were pared back during Tokyo trading time ahead of FRB chair Jerome Powell's speech at the Jackson Hole symposium. In his speech, Mr. Powell dropped strong hints that rate cuts would begin in September, so the greenback was sold and the currency pair fell to right around 144 yen.

(Week 5) The pair weakened to the mid-143 yen mark on August 26. Amid a dearth of noteworthy factors, the pair rallied slightly to trade around the mid-144 yen level. BOJ deputy governor Ryozo Himino gave a speech on August 28, though it contained no new information. The US released some firm (revised) 2Q GDP data on August 29, so the pair strengthened to 145.50 yen.

2. Outlook for This Month

The yen will start weakening and the dollar strengthening in September.

When the US 2Q real GDP data was released late July, it revealed that growth had topped expectations to hit 2.8% q-o-q, with the economy growing at a faster pace compared to the previous quarter. This shows how the US economy remains firm despite interest rates being at historically-high levels. The FRB has been concerned about prices, but inflation is steadily slowing. With the US July CPI and PPI figures both dropping below market expectations, inflation is unlikely to cause any sleepless nights going forward, provided no unexpected events occur. The latest labor market data also shows how wage pressure and jobs growth is steadily slowing. The rising unemployment rate is a little concerning, but a delve into the details reveals how this is not solely due to an increase in unemployed people but also to an increase in the economically active population, with the labor market showing no signs of suddenly cooling. Given all this, it seems a given that the FRB will start to lower rates from here on. The minutes to the July FOMC meeting revealed how many participants believed it would be appropriate to commence rate cuts from the September meeting, with the first rate cut likely to take place that month.

Investors will be focusing on the size of the rate cut. Judging from the current macroeconomic situation, though, it seems the FRB will be in no rush to lower rates, so we will probably see a 0.25%Pt cut. Rate cuts thereafter will depend on the economic situation, but overall it seems the FRB will continue to lower rates by 0.25%Pt going forward. However, the markets have priced in over four 0.25%Pt cuts within 2024, so as they start to adjust their expectations over time, US interest rates will probably rise, with the dollar/yen pair also likely to face upwards pressure.

Furthermore, the pair's sharp fall from July was due in large part to speculators unwinding their yen carry trades. Indeed, a glance at speculative yen positions (market net positions) shows long positions accumulating to their highest levels in years. However, it seems unlikely that investors will build up more yen long positions from here on. Yen long positions entail commensurate costs and it also seems unlikely that the BOJ will strike a hawkish pose that would justify the accumulation of more yen longs. When he spoke to parliament mid-August, BOJ governor Kazuo Ueda said the BOJ would only lift rates if the economy and inflation performed in line with the BOJ's expectations, so there are quite a few hurdles in the way of further ongoing rate hikes. Based on this, it seems likely investors will build up their yen short positions again as time goes by.

Dealers' Market Forecast

(Note: These opinions do not necessarily agree with the other contents of this report.)

Bullish on the dollar	3 bulls	149.00 – 141.00	Bearish on the dollar	10 bears	147.00 – 140.00

* Ranges are central values

Kawai	Bear	147.00 – 140.00	The dollar/yen pair fell sharply in August. The BOJ and FOMC will both be meeting mid-September. Excessive expectations for sharp US rate cuts have waned in the wake of comments by FRB chair Jerome Powell last month, but the pair might still renew a low for the year depending on the results of US employment indicators.
Kato	Bear	146.50 – 138.00	With the direction of US and Japanese monetary policy becoming clearer, investors will focus more on politics and war. On the political front, the election of Sanae Takaichi or Kamala Harris could push the yen lower. If Donald Trump wins, the yen will probably continue rising as investors focus sharply on the likelihood that inflation will slow as the US scales back its support for Ukraine.
Yamazaki	Bear	147.50 – 139.00	The dollar/yen pair will probably trend lower. The focus from here on will be the extent to which investors price in political shifts. Though this is a question of pacing, on the whole the pair is likely to head in a downwards direction.
Yamaguchi	Bear	147.00 – 142.00	It seems a done deal that the US will cut rates in September, but if the US releases some worse-than-expected employment data in September, US interest rates will probably fall further on expectations for sharp rate cuts, with the dollar/yen pair also likely to move with a heavy topside.
Tagawa	Bull	147.00 – 140.00	Now investors have finished pricing in a US rate cut, the focus will be on whether the BOJ drops any hints about rate hikes. However, the dollar/yen pair has already fallen by ten yen in July and five yen in August, so they key thing going forward will be not to miss out by following trends rather than focusing on the fundamentals.
Matsunaga	Bull	149.00 – 141.50	The market focus is shifting from US inflation to employment conditions. August's weekly employment data showed no signs of deteriorating on July, with September's data likely to show signs of improvement. With consumption also moving firmly, the greenback looks set to rally this month.
Okuma	Bear	147.00 – 140.50	The US has released some firm economic indicators recently, with expectations for a sharp September rate cut now waning. A rate cut still looks nailed on, though, so investors will find it hard to actively buy the dollar given the divergent monetary policy directions of the BOJ and FRB.
Han	Bear	147.00 – 140.00	The FRB has entered the phase of rate cuts and interest rates continue to trend lower, so the dollar/yen pair will move with a heavy topside. At the same time, the BOJ might lift rates, with the yen likely to be bought when expectations rise.
Ito (Motoi)	Bull	151.00 – 141.00	The markets have priced in around four 0.25% rate cuts by the FRB this year, but this seems somewhat excessive given the macroeconomic situation in the US. Given this, it seems overseas investors will start to build up their dollar long positions again when they return from summer vacation.
Suzuki	Bear	147.50 – 140.00	Though it seems the markets have gone slightly too far when it comes to pricing in rate cuts, the fact remains that the US will probably start lowering rates very soon. This marks a difference from Japan, where the BOJ is heading towards policy normalization, so the dollar/yen pair will probably trade with a heavy topside.
Nishi	Bear	147.00 – 141.00	Concerns about US economic trends seem somewhat excessive, but eradicating these concerns will be no easy matter. The dollar/yen pair's topside will also remain heavy on the BOJ's hawkish stance. The markets have priced in four US rate cuts within the year, but these expectations will probably wane, so caution will be needed.

Minamino	Bear	148.50 – 140.00	The markets will move skittishly early September on central bank events and a general election in Japan. The dollar/yen pair will probably move with a clearer sense of direction from mid-September on the results of the FOMC meeting. If the FRB remains in dovish mode, the dollar/yen pair looks set to trend lower.
Matsuki	Bear	147.00 – 140.00	Though a lot depends on the US August employment data and other indicators, the FOMC still has room for a 50bp rate cut when it meets in September, so the dollar/yen pair might fall. With the BOJ also committed to monetary policy normalization, it seems the pair will also be weighed down as speculators build up yen short positions.

Tomoko Yamaguchi, Forex Sales, Global Markets Sales & Trading Department

Euro – September 2024

Expected Ranges **Against the US$: US$1.0950–1.1250**
Against the yen: JPY156.00–162.00

1. Review of the Previous Month

The euro/dollar pair rose in the latter half of August to hit a high for 2024.

The pair began the month trading at $1.0826. It immediately dipped to a monthly low of $1.0778. With German interest rates falling and US stocks sliding, the pair continued moving with a heavy topside around $1.08. However, the greenback moved bearishly across the board on August 2 on the weak results of the US July employment data, with the euro/dollar pair surging back to $1.0926.

As US interest rates continued sliding the following week, the pair temporarily hit $1.10 on August 5. However, the pair then fell to the mid-$1.09 mark as US interest rates bounced back on the strong results of the US July Non-manufacturing ISM Report on Business. The pair weakened to $1.0904 on August 6 on falling German interest rates and bearish European stocks. The pair then moved in a narrow range around $1.09. Germany's final July CPI figure was released on August 9, but the data was as expected, so the impact on the markets was minimal. The greenback was sold from August 13, so the euro/dollar pair began rising. The US July PPI data was down on expectations on its release the same day, so the pair climbed back to the $1.10 range. It then rose to $1.1047 as US interest rates began sliding directly after the release of the US July CPI data on August 14. The pair tumbled to $1.0950 right after the release of the US July retail sales data on August 15. However, it was supported by falling US interest rates and it rallied to the $1.10 range on August 16 as the dollar was sold on the weak results of a US housing indicator.

The start of the following week saw the pair rising to the upper-$1.10 level on August 19 on rising European stocks and the lackluster results of some US economic indicators. The pair then topped the key $1.11 mark on August 20 as US interest rates continued sliding. The pair temporarily breached $1.11 on August 21 ahead of the release of the final US employment data for the year through to March. The minutes to the July ECB Governing Council meeting were released on August 22. They struck a slightly dovish tone, with the bank voicing confidence that wage growth was slowing, for example. However, the markets had finished pricing in a rate cut at the September meeting, so the minutes had minimal impact on the markets. In his speech at the Jackson Hole symposium on August 23, FRB chair Jerome Powell said, "my confidence has grown that inflation is on a sustainable path back to 2 percent," so US interest rates fell and the dollar/yen pair strengthened to hit a 2024 high of $1.1202. Germany released a better-than-expected August IFO Business Climate Index on August 26. The greenback was also sold on August 27 on falling US interest rates, so the currency pair continued moving at highs. However, the pair then weakened to around $1.11 on August 28 as the markets reacted badly to widening US/German interest-rate differentials. European interest rates then fell on August 29 on the weak preliminary August CPI results of several European nations. With US interest rates also rising on the firm results of several US economic indicators, the pair dropped back to the $1.10 level.

2. Outlook for This Month

The euro/dollar pair looks set to move at highs in September.

The pair hit a 2024 high in August, but this was less to do with active euro buying and more because the dollar weakened on the sluggish US labor market and so on. The FRB and ECB both look set to shift monetary policy in September, so the movements of each central bank will require monitoring. The ECB is expected to implement a 25bp rate cut when it meets this month. At +3.55% y-o-y, the eurozone 2Q negotiated wages figure (released August 22) was down sharply compared to the first quarter. This slowdown was led by Germany and France, with the result adding impetus to a ECB rate cut in September. The ECB Governing Council meeting decided to keep policy rates fixed when it met in July. The minutes suggested there was not much necessity for ongoing rate cuts, though they also hinted that the Council would discuss lowering rates when it met in September. Though a lot will depend on the data released from here on, it seems the ECB will cut rates in stages at around one cut per quarter. At the same time, the US economy is also showing show signs of weakness, so the FRB might lower rates at a faster pace than the ECB. If the US releases some worse-than-expected employment data in September, US interest rates might fall further, with this likely to support the euro/dollar pair’s movements.

However, a glance at the economic data shows the June retail sales figure (released August 6) contracting at -0.3% m-o-m. The August ZEW Indicator of Economic Sentiment also dropped below market forecasts on its release on August 13. The August HCOB eurozone services PMI (released August 22) was up on market expectations, but this was partially due to the Olympics in France, so the data will require further monitoring from here on. There has been no major shift in European economic indicators, but growth remains low, so investors will find it hard to actively buy the euro.

Investors should also pay attention to political risk. In France, President Macron refused to name a prime minister from the leftwing coalition. There will be a stormy debate about the selection for the next PM, with political instability likely to increase again. Furthermore, regional elections will be held in three eastern states in Germany in September. Though only regional elections, if the far right makes clear gains, this could lead to a further rise in political uncertainty ahead of the parliamentary elections next year. The euro will be sold during phases of rising political risk, so caution will be needed.

Dealers' Market Forecast

(Note: These opinions do not necessarily agree with the other contents of this report.)

Bullish on the euro	4 bulls	1.1275 – 1.0975	Bearish on the euro	9 bears	1.1200 – 1.0850

* Ranges are central values

Kawai	Bull	1.1300 – 1.1000	The euro/dollar pair hit a 2024 high in August. With several central bank events looming mid-September, attention will focus on the pace of US and European rate cuts. The US employment data could have a relatively significant impact on the markets, so if the US releases some bearish employment indicators, the currency pair is likely to continue moving firmly.
Kato	Bear	1.1150 – 1.0900	Wage growth has started to slow in the eurozone, as expected, but the FRB is also inclining more clearly in the direction of monetary easing. Demand looks set to remain strong in the eurozone on its huge trade surplus, so even if the euro/dollar pair is adjusted downwards, this slide will only be muted.
Yamazaki	Bull	1.1350 – 1.1000	As moves to price in US rate cuts grow, the dollar will be more susceptible to downswings. As such, the euro/dollar pair looks set to continue trending upwards, though US indicators and headlines will require monitoring.
Yamaguchi	Bear	1.1250 – 1.0950	Though the euro/dollar pair hit a 2024 high in August, this was more to do with dollar selling than euro buying. With the ECB and FRB both expected to cut rates in September, there is likely to be a dearth of factors capable of moving the markets significantly.
Tagawa	Bear	1.1180 – 1.0700	The outlook is unchanged from last month's column. Investors are pricing in rate cuts by both the FRB and ECB. Though economic indicators remain strong in the US, they are slowing in Europe, with the euro/dollar pair set to move bearishly as a result.
Matsunaga	Bear	1.1200 – 1.0800	Expectations for US rate cuts are growing, while the ECB only has limited room for rate cuts. With services inflation also remaining high, the euro/dollar pair is likely to remain firm, though the state of the European economy suggests there will be a dearth of factors conducive to active euro buying. The pair will probably move with a heavy topside in September.
Okuma	Bull	1.1250 – 1.0950	Though concerns of an economic slowdown are growing in the US, the European economy seems to have bottomed out, with some saying the ECB should not rush to cut rates. ECB rate cuts look nailed on, but the euro/dollar pair is set to move firmly on dollar weakness.
Han	Bear	1.1200 – 1.0900	Inflation is slowing at a faster pace in Europe compared to the US, so the euro will remain susceptible to selling. The euro/dollar pair's topside will also be weighed down by French political uncertainty.
Ito (Motoi)	Bear	1.1200 – 1.0700	The euro/dollar pair is moving firmly, but this is due to excessive dollar weakness rather than euro strength. Germany's economy (the central pillar of the eurozone economy) us also slowing, so the pair is likely to move more bearishly as time passes.
Suzuki	Bear	1.1250 – 1.0850	Investors are pricing in both FRB and ECB rate cuts, so there is unlikely to be any movements on monetary policy differences. However, the US economy remains in good shape, in marked contrast to the situation in Europe, with the euro/dollar pair likely to move bearishly on this discrepancy.
Nishi	Bear	1.1200 – 1.0900	Investors have finished pricing in a September ECB rate cut. Inflation is slowing and economic sentiments are also sluggish. The euro/dollar pair will also move with a heavy topside on the political deadlock in France. If concerns about the US economy grow, the euro could move relatively strongly against the dollar.

Minamino	Bear	1.1200 – 1.0800	The dollar moved bearishly against the euro last month, but recent economic indicators have pointed to an economic slowdown in Europe. The greenback will be bought slightly against the euro in September if the FOMC and ECB both elect to cut rates.
Matsuki	Bull	1.1200 – 1.0900	It seems certain that the FRB and ECB will both cut rates in September, so the euro/dollar pair looks set to float in a range overall. The euro/dollar pair's topside will be held down by the fact the eurozone is facing more economic headwinds than the US, but the pair will be supported by FRB dovishness.

Masayuki Nakajima, Europe Treasury Department

British Pound – September 2024

Expected Ranges **Against the US$: US$1.2900–1.3500**
Against the yen: JPY187.00–200.00

1. Review of the Previous Month

With risk aversion sweeping the globe at the start of August, the GBP/USD pair fell by around -1.5% from \$1.2862 to \$1.2666, but it then strengthened and it topped \$1.3044 (the 2024 high it hit on July 17) on August 20. On August 27, the pair then rose to \$1.3269 for the first time since March 2022. Sterling weakened towards the month's end, but by the end of August the pair was still up by around +2.4% compared to the end of July. The GBP/JPY pair moved from around 193 yen at the end of July to around 191 yen at the end of August, but the pound moved firmly overall against the euro to pare back all its losses since the start of the month.

In the first week, the GBP/USD pair fell by around -0.5%. On August 1, the BOE lowered rates for the first time in four years and five months. Market bets had been 50/50 that the BOE would make such a move. Five members had voted for rate cuts, while four had voted to keep rates fixed. BOE Governor Andrew Bailey expressed caution about excessive or overly-rapid rate cuts, while one member who had supported the rate cut said the decision had been a finely balanced one. The BOE's forward guidance was also left essentially unchanged from the June meeting. The BOE seemed to leave room to maneuver by not mentioning the timing of any further rate cuts.

The second week saw sterling falling by around -1% against the dollar and around -4% against the yen over August 5–6 on global risk aversion, though it then rallied over the latter half of the week. Though the market reaction was muted, the UK media then focused on far-right riots in the UK and demonstrations by tens of thousands of people against the far-right disturbances.

The GBP/USD pair rallied by around +1.5% in the third week. Risk sentiments improved on the results of the US July CPI data and retail sales data. UK indicators moved firmly on the whole and they suggested that wage and inflation pressures were easing off slightly. At +0.6% q-o-q, the 2Q GDP figure remained in positive territories (1Q: +0.7% q-o-q). However, at +4.2% y-o-y, the averages wage growth figure for May–July was down on the +4.4% y-o-y figure recorded over April–June.

The GBP/USD pair rallied by around +2.0% in the fourth week. The pound hit a 2024 high against the dollar as the greenback fell across the globe on expectations for US rate cuts. In his speech at the Jackson Hole symposium on August 23, FRB chair Jerome Powell laid the ground for a September rate cut when he said "the time has come for policy to adjust." At the same time, BOE Governor Andrew Bailey said that while "second round effects may be smaller… policy setting will need to remain restrictive for sufficiently long until the risks to inflation remaining sustainably around the 2% target in the medium term have dissipated further."

2. Outlook for This Month

It seems sterling will continue to face some adjustment from September onwards. There are three reasons for such a prognosis: (1) UK economic sentiments (particularly compared to the eurozone) are looking up, with

August's Manufacturing and Services PMIs both topping neutral levels to improve further; (2) the political situation in the UK seems more stable compared to France and Germany; (3) the BOE has adopted a cautious stance towards further rate cuts.

As for (3), in a speech at the Jackson Hole symposium on August 23, BOE Governor Andrew Bailey said that while "second round effects may be smaller… policy setting will need to remain restrictive for sufficiently long until the risks to inflation remaining sustainably around the 2% target in the medium term have dissipated further." The BOE began lowering rates when it met in August, but it has reiterated its cautious stance when it comes to further easing. There is almost zero chance that the BOE will cut rates again when it meets on September 19. If things go well, the bank will probably consider easing at a pace of one cut per quarter (with the next one coming in November). At the Jackson Hole symposium, FRB chair Jerome Powell gave prior notice of a rate cut at the FOMC's September meeting when he said, "the time has come for policy to adjust." As the FRB lays the ground for rate cuts, the BOE seems more hawkish in comparison.

Investors will be focusing on the US economy and monetary policy trends in September too, but in the UK the attention will fall on fiscal policy. In a speech on August 27, UK prime minister Keir Starmer said, "there's a budget coming in October and it's going to be painful… I'll have to turn to the country and make big asks of you as well. To accept short term pain for long term good." Tax rises and spending cuts had already seemed a possibility, but there is still a lot of uncertainty about which measures the government will adopt. These could impact economic sentiments, so caution will be needed.

Shiho Kawaguchi, Sydney Treasury Office, Asia & Oceania Treasury Department

Australian Dollar – September 2024

Expected Ranges **Against the US$: US$0.6430–0.6900**
Against the yen: JPY91.40–100.00

1. Review of the Previous Month

In August, the AUD/USD pair fell from $0.6540 to around $0.65 on risk aversion. It climbed to the mid-$0.65 mark on August 2 on the bearish result of the US July employment data, but this trend was short-lived and it fell back to the lower-$0.65 range.

With liquidity thin amid a Sydney bank holiday on August 5, risk aversion increased on bearish stock movements, with the currency pair temporarily dropping to $0.6349 while activating stop losses. However, it was soon bought back to close around $0.65. The AUD/JPY yen rose from the lower-90 yen mark to the mid-95 yen level throughout the course of the day. The RBA board kept policy rates fixed when it met on August 6, with the central bank upgrading its forecast for economic growth and inflation. With yields on short-term and other Australian government bonds rising, the AUD/USD pair strengthened to $0.6540. The AUD/JPY pair rose on August 7 when the yen weakened on dovish comments by BOJ deputy governor Shinichi Uchida. The Australian dollar was supported on August 8 when RBA governor Michele Bullock expressed caution about inflation risk while also striking a hawkish tone again by saying the RBA would not hesitate to hike rates again if necessary. US stocks then rose sharply when the US new applications for unemployment insurance data turned out to be not as bad as expected. The AUD/USD pair subsequently rose to $0.6590. China's July CPI and PPI figures both topped expectations on their release on August 9. With Chinese stocks rising, the AUD/USD pair temporarily hit $0.66, though its topside was held down here and the pair returned to $0.6570.

Australia released some mixed 2Q wages data on August 13, but with the US July PPI figure dropping below forecasts, the currency pair rose on expectations for US rate cuts. The Australian dollar was pulled down on August 14 when the RBNZ implemented a 25bp rate cut earlier than expected. Australia released some mixed July employment data on August 15, with the AUD/USD pair also moving bearishly on the firm results of the US July retail sales data.

With the Jackson Hole symposium looming, stocks rose at a faster pace on August 19 on growing risk appetite. The AUD/USD pair subsequently rose to around $0.6730. The minutes to the August RBA board meeting were released on August 20 and they revealed that members were in agreement that there was little chance of rate cuts in the short term. However, the board maintained a hawkish stance, so the impact on the markets was muted. The minutes to the July FOMC meeting were released on August 21 and these struck a dovish tone with comments about how several members had said there was a "plausible case" for a rate cut in July and how "the vast majority observed that…it would likely be appropriate to ease policy at the next meeting." As US interest rates fell, the currency pair strengthened to $0.6761, though it was then sold back to around $0.6740. In his speech at the Jackson Hole symposium on August 23, FRB chair Jerome Powell said that "the time has come for policy to adjust," with US interest rates then falling sharply. The pair rose to $0.6798 as a result.

Australia's July CPI data was released on August 28. Inflation had slowed from 3.8% to 3.5%, owing in part to subsidized electricity bills, but it was up on expectations for 3.4%. Yields on 3-year Australian government bonds rose after the announcement, with the Australian dollar bought and the pair rising to $0.68. It then climbed to $0.6813, though its momentum was short-lived and it dropped back to the upper-$0.67 mark at the month's end.

2. Outlook for This Month

The AUD/USD pair's range is expected to shift upwards in September. In his speech at the Jackson Hole symposium on August 23, FRB chair Jerome Powell said "the time has come for policy to adjust," adding that members "had gained greater confidence that inflation is moving sustainably toward 2 percent." As a result, interest rate markets are now expecting the FOMC to cut rates by a total of 1pt over the three remaining meetings this year. It seems certain the FOMC will implement a rate cut when it meets over September 17–18. The markets have already priced this in, but as interest-rate differentials shrink, investors might unwind their US dollar long positions against the Australian dollar, with the AUD/USD pair set to move firmly as a result. When the RBA meets on Tuesday, September 24, the focus will be on whether it sticks to its hawkish stance. The 2Q wage growth figure (released on August 13) was down slightly on the previous quarter, with the year-on-year result unchanged on 1Q at 4.1%. However, this was still quite high compared to the RBA's inflation target range of 2–3%. This suggested it might be appropriate to leave Australian policy rates fixed for a longer period, with expectations for rates hikes within the year subsequently waning. At 3.5%, meanwhile, Australia's July CPI figure (released August 28) was down on June's 3.8%, though it was up slightly on the market forecast for 3.4%. Electricity price inflation had slumped from +7.5% in June to -5.1% in July thanks to a government subsidy program, with this pushing the CPI data lower, but if this program had not been implemented, electricity bills would have risen by +0.9%, so there is a risk that inflation might flare up again as the pace of CPI deceleration slows. The greenback might be sold further if investors focus on the divergent monetary policies of the US and Australia, so the AUD/USD might get entrenched at the $0.68 level, with its topside rising higher. The RBA board will probably maintain a hawkish stance when it meets in September, though market participants should watch out for any new policy management headlines. Geopolitical risk is also rising on the situation in the Middle East and this could also hold the Australian dollar down, so caution will be needed.

Mizuho Ashizaki, Canada Treasury Office, Americas Treasury Department

Canadian Dollar – September 2024

Expected Ranges **Against the US$: C$1.3200–1.3700**
Against the yen: JPY105.00–108.50

1. Review of the Previous Month

The US released a bearish July Manufacturing ISM Report on Business on August 1 and some weak July employment data on August 2, with concerns about a US economic slowdown then growing. Stocks then fell sharply on excessive fears about the ripple effect on the global economy. The markets were swept by speculation that the FRB would implement a significant 0.50% rate cut when it met in September, with an air of panic prevailing for a time. The USD/CAD pair rose to C$1.3946 overnight on August 5. However, this turmoil was short-lived and the markets gradually regained composure when the US Non-manufacturing ISM Report on Business (released August 5) topped the previous figure and forecasts, while an FRB official also voiced the hawkish opinion that the US economy would not tip into recession. The currency pair subsequently dropped back to C$1.3793 during overnight trading. Crude oil prices then rose on news that Iran might launch retaliatory strikes on Israel, so the Canadian dollar was bought and the pair slid to the mid-C$1.37 level.

The US July PPI data was released on August 13, with the headline and core figures both down on expectations. The US July CPI data was then released on August 14 and this was also weaker than expected, thus confirming that inflation was slowing. The currency pair dipped to the upper-C$1.36 mark, but the data was within the grounds of expectations, so the market reaction was muted and the pair continued trading in a range. The US then released some unexpectedly bullish July retail sales data on August 15. With the US new applications for unemployment insurance figure also falling, it seemed the US economy was moving firmly. As such, expectations for a 0.50% FRB rate cut waned. As global stock markets moved stably, the greenback was sold further on risk appetite. Canada's July CPI data was released on August 20. The headline and core figures were both down, so the Canadian dollar was sold and the pair hit C$1.3641 for a time, but it then dropped to the lower-C$1.36 mark as the greenback faced strong downwards pressure. On August 21, the US Labor Department released its estimated employment data for the year through to March, with the number of new nonfarm jobs revised down by around 818,000, thus revealing that the US labor market had cooled even further. The minutes to the FOMC meeting also hinted at a commencement of rate cuts in September. With inflation slowing and the unemployment rate rising, it seemed the FOMC had even discussed lowering rates in July. The greenback was subsequently sold and the USD/CAD pair weakened to around C$1.357. At his closely-watched speech at the Jackson Hole symposium on August 23, FRB chair Jerome Powell dropped hints about a September rate cut, so the currency pair plummeted to C$1.3499. The greenback fell on August 27 and the pair dropped to C$1.3441. However, the US 2Q GDP figure was revised upwards on August 29, while the US also released a bullish new applications for unemployment insurance figure, so the pair then rallied to the upper-C$1.34 level. A wait-and-see mode then prevailed ahead of the release of the US August employment data on September 6, so the pair's topside was capped and it moved in a narrow range.

2. Outlook for This Month

The minutes to the Canada (BOC) board meeting held July 24 pointed to the risk on an economic downswing on falling per-capita GDP, slowing consumer spending, and rising unemployment, for example. The BOC also said it was keeping a closer eye on the possibility that inflation might trend below the 2% target.

The July CPI data revealed that prices pressures had eased across a wide range of sectors, including travel tours, automobiles, and electricity bills. One concern is persistently high food and housing inflation, but this trend is gradually losing momentum.

Canada's unemployment rate has risen to 6.4%. This is nearly 2% higher than the record low recorded in the summer of 2022. With the number of new jobs still failing to keep pace with population increases, the unemployment rate among people who had moved to Canada within the last five years rose to 12.6%. This figure stood at 22.8% for young immigrants. With the population growing on immigration, housing demand is high. Canada's July housing starts data pointed to strong growth in the state of Ontario, but housing starts nonetheless remain below the high figures recorded in 2021 and 2022.

Furthermore, the BOC lowered rates in both June and July, but consumer spending remains subdued. It will probably recover on the rate cuts, but this will take time. The markets are sure the BOC will cut rates three more times this year (in September, October and December) and they are expecting the overnight rate to hit 3.75% by the year's end.

Attention will focus on whether the BOC will revise its outlook for interest rates and economic policy when it meets on September 4. Market participants will also be paying close attention to the release of the August employment data on September 6 and the CPI data on September 17.

On the other hand, it seems the FRB will finally start lowering rates in September. The FRB has indicated that the size of the cut will depend on the data. In the run up to the September 17–18 FOMC meeting, market expectations could shift sharply on the results of the US August employment data (released September 6) and August CPI data (September 11), so caution will be needed. If the FRB implements a 0.50% rate cut and US/Canadian interest-rate differentials shrink sharply, the greenback will probably be sold at a faster pace. Vigilance will still be required when it comes to the Middle East and Ukraine too. With the US presidential election looming in November, the CAD/USD pair will also be swayed by US political trends, with uncertainty set to grow. The pair is expected to trade between C$1.3200–1.3700 in September.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – September 2024

Expected Ranges	**Against the US$: KRW 1,300–1,360**
	Against the yen: JPY 10.44–11.29 (KRW100)

1. Review of the Previous Month

The USD/KRW pair weakened in August.

US rate hikes fell after the end-of-July FOMC meeting on expectations for the start of US rate hikes, so the pair opened August trading at KRW1368.0 before temporarily sliding to KRW1361. However, stocks moved bearishly on August 2 on concerns about an economic slowdown. As overseas investors sold on balance in South Korea stock markets, the currency pair rallied to KRW1370.

The following week saw dollar selling on August 5 as US interest rates fell sharply on the weak US employment data, with the pair dropping below KRW1360 to slide to around KRW1355. However, stocks then plummeted on recession fears, with circuit breakers activated in South Korean stock markets. As funds continued to flow out of South Korea, the pair rebounded to around KRW1375. The pair continued climbing from August 6 to hit a high just below KRW1380. It then moved around KRW1370.

Excessive concerns about the US economy eased the following week, with the pair opening around KRW1365 on August 12, though the pair then bounced back to KRW1370 as the won was pulled down by yen bearishness. The US PPI data was released on August 13 and it pointed to slowing inflation, with the currency pair subsequently dropping to the lower-KRW1360 mark on August 14. The US CPI data was released on August 15 and this also signalled falling inflation, with the pair then falling to KRW1350 on August 16. The won was also supported by fund inflows from overseas investors.

The pair opened the following week trading around KRW1351 on August 19 on growing expectations for US rate cuts. It then fell by over 20 won as the greenback weakened against Asian currencies. The pair dipped to around KRW1325 on August 20. As expected, the BOK kept policy fixed when it met on August 22. Furthermore, four of the six members (excluding the governor) said a rate cut might happen within the next three months, with the meeting read as slightly dovish. Though the reaction of the currency markets was muted, the pair bounced back to KRW1338 on August 23.

The pair opened the next week trading at KRW1324.3 on August 26. The pair weakened after FRB chair Jerome Powell's speech at the Jackson Hole symposium to temporarily hit a low of KRW1319.4. It rallied from August 27 onwards as overseas investors sold on balance in South Korean stock markets on worries about the Middle East situation and concerns about the settlement results of a US hi-tech company. The pair had returned to around KRW1331 as of 15:30 pm on August 29.

2. Outlook for This Month

The USD/KRW pair is expected to trade with a heavy topside in September.

The BOK removed a phrase about "maintaining a restrictive monetary policy stance for a sufficient period of time" from the statement released after its meeting on August 22. With inflation continuing to slow, most members had voiced support for rate cuts, with the start of rate cuts within the year becoming a real possibility.

The recent statement also pointed to the continuing growth of exports, though it said domestic demand was more sluggish than expected. In its updated economic outlook, the BOK downgraded its 2024 GDP growth forecast by 0.1% to 2.4%, with the outlook suggesting the factors were in place for a rate cut to stimulate the economy. At the same time, the BOK also expressed concerns about surging household debt. Housing prices in Seoul and its surrounding areas are showing signs of bottoming out again, with housing investment being supported by government measures to stimulate housing demand. With household debt soaring on housing-related financing, the BOK has put rate cuts on the back burner. The BOK will be meeting two more times this year, in October and November, but investors should monitor the BOK's communication going forward.

As speculation grows that the US will start cutting rates even earlier in September, the USD/KRW pair will probably trend lower on shrinking interest-rate differentials. There are concerns that the South Korean economy might slow given its reliance in external demand from the US and China, but won buying will also be supported at times by real demand on the back of South Korea's expanding trade surplus.

Kazuki Hisamoto, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – September 2024

Expected Ranges **Against the US$: NT$31.30–32.30**
Against the yen: JPY4.45–4.70

1. Review of the Previous Month

The USD/TWD pair fell in August.

The pair opened the month trading at TWD32.750 on August 1. When the FOMC met at the end of July, it discussed cutting rates as early as September. As US interest rates fell, the greenback was sold and the currency pair slid to the upper-TWD32.60 level. The US July employment data was released during overseas trading time on August 2. The results were worse than expected, so the US dollar faced more selling pressure and the pair tumbled to around TWD32.60. Risk sentiments improved on August 9 when a Taiwanese semiconductor firm announced record sales for July. As overseas investors bought Taiwanese stocks, the Taiwan dollar was bought and the currency pair weakened to the lower-TWD32.40 level.

The US released a weaker-than-expected July PPI indicator during overseas trading time on August 13, so the greenback was sold and the USD/TWD pair dropped to TWD32.20. With the US dollar moving bearishly, exporters began selling foreign currencies. During this time, the pair moved with a heavy topside at the upper-TWD32.20 mark. During overseas trading time on August 16, Chicago FRB president Austan Goolsbee said that "you don't want to tighten any longer than you have to," with the greenback then sold at a faster pace and the currency pair falling to just below TWD32.00.

In the second half of the month, Canada released some bearish July CPI data during overseas trading time on August 20. As overseas interest rates fell, the US dollar was sold and the USD/CAD pair dropped to the lower-TWD31.90 range. FRB chair Jerome Powell then made positive noises about rate cuts during his speech at the Jackson Hole symposium during overseas trading time on August 23, so the US dollar was sold at a faster pace and the currency pair temporarily fell to a five-month low of TWD31.758.

2. Outlook for This Month

The USD/TWD pair is expected to move with a heavy topside in September.

With US employment and inflation indicators showing signs of cooling in August, several key FRB officials called for an end to monetary tightening, with expectations then rising for rate cuts from the September FOMC meeting onwards. With US interest rates falling sharply, the US dollar faced selling pressure across the globe. Risk sentiments also improved in Taiwan on a global recovery in semiconductor demand. As the Taiwan dollar was bought, the USD/TWD pair fell to TWD31.758, its lowest level in around five months.

The currency pair will probably move with a heavy topside in September. The FOMC is expected to cut rates when it meets this month. On the other hand, with Taiwanese property prices rising by an annualized 14% or so, Taiwan's central bank might adopt a restrictive stance when it meets to set policy. If US/Taiwanese interest-rate differentials shrink, the greenback will probably be sold. Furthermore, when it comes to fund supply and demand, risk sentiments have improved on a recovery in semiconductor demand, with Taiwan's trade balance also likely to improve on an export revival, so the US dollar will be susceptible to selling against the Taiwan dollar. As such, the USD/TWD pair looks set to move with a heavy topside.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – September 2024

Expected Ranges **Against the US$: HK$ 7.7700–7.8100**
Against the yen: JPY 17.90–19.10

1. Review of the Previous Month

Hong Kong dollar spot exchange market in August

The HKD spot rallied to the strong half of its trading band below 7.8 handle, touching its 32-month high of 7.7697, due to the re-pricing of deeper Fed's rate cuts following the release of dismal US jobs report. Notably the HKD spot soared to the strong-side convertibility undertaking of 7.75 level after Fed's sharp rate cuts in response to the Covid outbreak in March 2020. Late in August, Fed chair Powell said the time has come for policy adjustments, confirming the rate cut in September. However, market sentiment remained stable, holding the HKD spot up near 7.8 handle.

Moreover, the going dividend payouts flow from the HK-listed Chinese corporate and the recovery in Hang Seng Index provided support to the HKD spot. The continuing Southbound Stock Connect flow to its year-to-date high of above HKD 450bn highlighted capital inflow from onshore Chinese investors. As the dividend payouts flow is running its course in August-end, short-term HKD liquidity condition eased, posing downward pressure on the HKD T/N forward points. In the back-end, market participants entered the position of long 1Y HKD forward outright trading below 7.75 level.

On the data front, HK retail sales for June dropped for 4 straight months, reflecting the slow inbound tourism recovery and cross-border consumption. CPI inflation for July jumped from 1.5%YoY to 2.5%YoY due to the end of rates concession. Netting out the effect from one-off relief measures, the underlying CPI inflation picked up to 1.2%YoY from prior 1.0%YoY.

Hong Kong dollar interest rate market in August

The HKD HIBOR curve dropped, as the Fed is set to enter its rate cut cycle in September following the shockingly weak jobs report. The 1-month and 3-month HKD HIBOR slid by near 50bps and 30bps to 4% and 4.3%, respectively. The USD SOFR fell at a slower pace as market sentiment recovered subsequently, widening the HKD HIBOR – USD SOFR spread. The subdued loan demand due to the bleak HK growth outlook and sluggish property market continued to weigh on HKD rates. As the HKD spot did not touch the trading band limits in August, HKMA aggregate balance remained largely unchanged at near HKD 44.8bn. HKD liquidity conditions were stable, alongside the diminishing usage of HKMA discount window operations. In the medium term, the HKD IRS curve fell further due to expectations for Fed's more aggressive rate cuts. The HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD HIBOR) stayed above +100bps.

2. Outlook for This Month

Hong Kong dollar spot exchange market in September

HKD is expected to fluctuate around 7.8 handle as a slowdown of US economy does not justify Fed's aggressive rate cuts. In case of Fed's gradual rate cut cycle, HKD is not likely to soar to 7.75 level quickly. If market volatilities fell, market participants would be tempted to rebuild the carry trade position of long USD/HKD spot. Despite the buoyant Southbound Stock Connect inflow, HKD spot demand will remain soft as foreign investors stay away from HK equities and property investments. As a result, the materializing Fed's rate cut in September is not likely to bolster the HKD spot. Meanwhile, the 1Y USD/HKD forward outright buying flow is set to continue below 7.75 level, which indicates positive return as long as the USD-HKD peg remains unchanged.

Hong Kong dollar interest rate market in September

Under the USD-HKD peg, HKD rates are expected to fall further as the Fed is set to enter rate cut cycle. The weak HKD loan demand due to the property downturn and bearish HK growth outlook suggests that the USD-HKD interest rate gap will remain positive. The HKMA's measures to ease loans to small-and-medium enterprises should provide some relief to HK business, but will unlikely change the picture of sluggish loan demand. The seasonality of HKD quarter-end funding demand indicated the upside risks for HKD rates. However, the impact should prove to be limited given flush HKD liquidity conditions. The HKMA aggregate balance is expected to stay unchanged largely unless the Fed accelerates its rate cut cycle. Despite the pick-up in IPO activities, the liquidity tightening related to the oversubscriptions is unlikely to take place amid bearish HK stock market sentiment.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – September 2024

Expected Ranges	**Against the US$: CNY 7.0000–7.1800**
	Against the yen: JPY 19.22–21.43

1. Review of the Previous Month

The U.S. dollar/Chinese yuan onshore exchange rate fell in August.

On August 1, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 7.21 level. The U.S. dollar/Japanese yen exchange rate had fallen sharply in reaction to the Bank of Japan's decision to additionally raise the policy interest rate at the monetary policy meeting held at the end of July, as well as the expectation for the Federal Open Market Committee (FOMC) to cut policy interest rates in times ahead due to the weak figures in the July employment statistics of the U.S. As a consequence, the U.S. dollar/Chinese yuan exchange rate also fell, and on August 2, the U.S. dollar/Chinese yuan exchange rate temporarily reached the CNY 7.15 level. On August 5, risk-averse sentiment grew further in the market, and stock prices fell while bond prices rose globally. Under such circumstances, the U.S. dollar/Chinese yuan exchange rate temporarily fell to the lower-CNY 7.11 level. Thereafter, the market calmed down, and the U.S. dollar/Chinese yuan exchange rate remained generally stable while fluctuating slightly. On August 7, the U.S. dollar/Chinese yuan exchange rate rallied to the upper-CNY 7.18 level.

On August 13, the People's Bank of China (PBOC) central parity rate was set with the lowest Chinese yuan in the year. On the other hand, long-term interest rates fell in the U.S., and the U.S. dollar/Chinese yuan exchange rate was also on a downtrend. On the same day local time in the U.S., the July Producer Price Index (PPI) of the U.S. turned out to be lower than the market estimate. Furthermore, on August 14, the July Consumer Price Index (CPI) of the U.S. turned out to be generally in line with the market estimate. In reaction, the U.S. dollar/Chinese yuan exchange rate fell once to reach the lower-CNY 7.13 level. However, on August 15, the following day, the U.S. dollar/Chinese yuan exchange rate rallied to the CNY 7.16 level. On the same day during the nighttime, the July retail sales of the U.S. were announced with a significantly improved figure, in reaction to which interest rates in the U.S. rose and the U.S. dollar appreciated. As a result, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 7.17 level after the market opening on August 16.

At the end of the month, market participants maintained a wait-and-see attitude, waiting for the speech by Federal Reserve Board (FRB) Chair Jerome Powell at the Jackson Hole Economic Symposium. Under such circumstances, long-term interest rates fell in the U.S., and expectations grew for the FRB to cut the policy interest rate. As a result, during the first half of the week, market participants mainly sold the U.S. dollar, and therefore the U.S. dollar continued depreciating against the Chinese yuan. Consequently, the U.S. dollar/Chinese yuan exchange rate reached the mid-CNY 7.12 level on August 21. On August 22 local time in the U.S., U.S. economic indices were announced with improved figures, and FRB officials made some optimistic remarks. As a result, long-term interest rates in the U.S. started to rise, encouraging market participants to buy the U.S. dollar. As a result as well, the U.S. dollar/Chinese yuan exchange rate once rose to the CNY 7.15 level. However, thereafter, at the Jackson Hole Economic Symposium, FRB Chair Jerome Powell made a dovish remark, which resulted in U.S. dollar-selling in the market. Following this trend, the U.S. dollar/Chinese yuan exchange rate once fell to the lower-CNY 7.11 level on August 26. Toward the end of the month, there were no new factors in the market, and the U.S.

dollar/Chinese yuan exchange market was led by actual transactions. On August 29, the U.S. dollar/Chinese yuan exchange rate once fell as low as the lower-CNY 7.10 level.

2. Outlook for This Month

In September, the U.S. dollar/Chinese yuan onshore exchange rate is forecast to remain low.

In August, the U.S. dollar/Japanese yen exchange rate fell sharply, following which the U.S. dollar/Chinese yuan exchange rate also fell significantly. Since the beginning of the year, the Chinese monetary authorities had been making counter-cyclical adjustment to the PBOC central parity rate, and this kept the U.S. dollar/Chinese yuan exchange rate at around the upper end of the daytime fluctuation range—2% above the central parity rate. However, the U.S. dollar/Chinese yuan exchange rate is currently not following this trend. At the moment, market participants expect the FOMC to cut its policy interest rate in September after a phase of adjustment. Thus, the U.S. dollar/Chinese yuan exchange market is likely to react sensitively to figures in the U.S. economic indices and to remarks made by officials of U.S. monetary authorities.

With regard to the policy interest rate in the U.S., the market has already reflected policy interest rate cuts of around 100 basis points that are expected before the end of the year. Thus, even if the U.S. policy interest rate is cut in September, there is not likely to be any significant surprise in the market. Given that the U.S. dollar/Chinese yuan trading exchange rate is approaching the PBOC central parity rate again, we can say that there are likely to be some buy backs if both the policy interest rate and the forward guidance turn out to be as expected in the market.

On the other hand, it is worth noting that the U.S. dollar/Chinese yuan exchange rate fell sharply at the beginning of August and remained low thereafter, although the exchange rate rallied to the halfway. On August 29, the U.S. dollar/Chinese yuan onshore exchange rate renewed its low after the sharp fall, reaching CNY 7.1122. Because it has now become more likely for the FRB to start cutting the policy interest rate and as concerns about the depreciation of the Chinese yuan have been mitigated, market participants may expect the Chinese monetary authorities to also start considering additional measures of monetary easing such as a policy interest rate cut. In such a case, downward pressure on the Chinese yuan may strengthen. However, for the time being, it is most likely for the U.S. dollar/Chinese yuan exchange rate to remain low, based on the situation in the U.S. dollar exchange market.

Ayaka Matsumoto, Asia & Oceania Treasury Department

Singapore Dollar – September 2024

Expected Ranges	**Against the US$: SG$ 1.2600–1.3300**
	Against the yen: JPY 106.00–114.00

1. Review of the Previous Month

In August, the Singapore dollar strengthened against the U.S. dollar.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange market opened trading at the mid-SGD 1.33 level. On August 2, the July employment statistics of the U.S. were announced, and both the number of employees and the unemployment ratio turned out to be weaker than the market estimate. In reaction, market participants started actively selling the U.S. dollar, and thus the U.S. dollar/Singapore dollar exchange rate fell sharply to the mid-SGD 1.32 level. On August 5 after the weekend, market participants continued selling the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate once fell to the mid-SGD 1.31 level. However, thereafter, U.S. dollar-selling slowed, and market participants maintained a wait-and-see attitude. As a result, the U.S. dollar/Singapore dollar exchange rate fluctuated within a narrow range at around the mid-SGD 1.32 level.

On August 13, the July Producer Price Index (PPI) of the U.S. was announced, and the result tuned out to be below the market estimate. In reaction, interest rates in the U.S. fell, and the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.31 level. On August 14, the following day, the July Consumer Price Index (CPI) of the U.S. was announced, and the result turned out to be +2.9% year-on-year, as had been anticipated in the market. However, since the result was below the 3% mark for the first time in approximately three years and confirming a steady slowdown of inflation in the U.S., market participants expected a policy interest rate cut and sold the U.S. dollar in an accelerated manner. Consequently, the U.S. dollar/Singapore dollar exchange rate reached the mid-SGD 1.31 level. Thereafter, the July retail sales figure of the U.S. and the number of new unemployment insurance claims in the U.S. were announced, and the figures turned out to be strong, which led the U.S. dollar to rally for a while. However, this trend did not last for a long time. Because the Federal Reserve Board (FRB) officials made dovish remarks and as interest rates in the U.S. fell, the U.S. dollar/Singapore dollar exchange rate fell as well and reached the lower-SGD 1.30 level on August 20.

On August 22, the August non-manufacturing industry PMI of the U.S. was announced, and the result turned out to be above the market estimate, which led the U.S. dollar/Singapore dollar exchange rate to rally to the lower-SGD 1.31 level. However, on August 23, the following day, FRB Chair Jerome Powell made a remark to announce that the time to change the monetary policy had come, which led the U.S. dollar to depreciate again. It is also worth noting that the CPI of Singapore was announced on August 23 and that the headline CPI turned out to be +2.4% year-on-year, demonstrating a slowdown from the last figure. However, this did not impact the exchange market significantly. In reaction to the remark made by FRB Chair Jerome Powell, the U.S. dollar/Singapore dollar exchange rate approached SGD 1.30—a psychological turning point. However, thereafter, there were no special events in the market toward the end of the month, and the U.S. dollar/Singapore dollar exchange rate did not move in any direction, fluctuating within a narrow range at the lower-SGD 1.30 level.

2. Outlook for This Month

In September, the Singapore dollar is forecast to start appreciating against the U.S. dollar.

In August, FRB officials, including FRB Chair Jerome Powell, made dovish remarks, which fueled expectation for policy interest rate cuts in the U.S. In reaction, the U.S. dollar/Singapore dollar exchange rate also fell. The same trend is expected in September.

In the U.S., it is almost certain for the Federal Open Market Committee (FOMC) to cut its policy interest rate at its meeting scheduled in September, as FRB Chair Jerome Powell made a remark to almost announce his intention to cut the policy interest rate at the Jackson Hole Economic Symposium. Therefore, the foreign exchange market is expected to move based on the extent of the policy interest rate cut, the dot plot, and on remarks by FRB Chair Jerome Powell. Given that the economic data for the past several months suggests a slowdown of inflation pressure while the labor environment in the U.S. has also slowed down, it is likely for monetary policy in the U.S. to remain dovish. Because the U.S. economic indices have also been weak, it is likely for market participants to continue to refrain from actively buying the U.S. dollar.

On the other hand, in Singapore, the July headline CPI turned out to be +2.4% year-on-year, and the core CPI turned out to be +2.5% year-on-year, both showing a slowdown from the previous month. In particular, the core CPI turned out to be at its lowest level in approximately two years. Some economists expect the Monetary Authority of Singapore (MAS) to consider measures of monetary easing. However, at the previous meeting, the MAS revealed its cautious attitude, pointing out that monetary easing could cause a resurgence of inflation by raising domestic labor costs again. Furthermore, the second-quarter GDP (confirmed figure) of Singapore was announced in August, and the result remained unchanged from the preliminary figure at +2.9% year-on-year. The Ministry of Trade and Industry revised the economic growth outlook for FY2024 upward from 1.0–3.0% to 2.0–3.0%, showing its general view that foreign demand would remain robust for the rest of the year. Therefore, based on the healthy economic environment in Singapore, it is unlikely for the policy interest of Singapore to be cut at the next monetary policy meeting scheduled for October. As was discussed above, the U.S. dollar/Singapore dollar exchange rate is expected to fall based on U.S. dollar-selling. However, it is also possible for some market participants to buy the U.S. dollar when the exchange rate is so low. Thus, one should remain cautious about the possibility for the U.S. dollar/Singapore dollar exchange rate to fluctuate in both directions.

Chengyue Li, Bangkok Treasury Office, Asia & Oceania Treasury Department

Thai Baht – September 2024

Expected Ranges **Against the US$: THB 33.50–35.00**
Against the yen: JPY 4.20–4.35

1. Review of the Previous Month

In August, the U.S. dollar/Thai baht exchange rate fell.

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at the mid-THB 35 level. Japanese stock prices recorded a historic fall, leading to global fall of stock prices. Under such circumstances, risk-averse sentiments grew in the market, and market participants mainly sold the U.S. dollar. Then, on August 2, the July employment statistics of the U.S. were released, and the figures were generally weak, which accelerated the U.S. dollar-selling. Thus, toward August 5, the U.S. dollar/Thai baht exchange rate fell further. However, the exchange rallied thereafter. On August 7, the largest opposition in Thailand—the Move Forward Party—was dissolved, while the July Consumer Price Index (CPI) of Thailand turned out to be above the market estimate. However, the impact of these headlines was minimal in the market. Thereafter, the U.S. dollar/Thai baht exchange rate remained low at the lower-THB 35 level.

In the middle of the month, the July Producer Price Index (PPI) of the U.S. was announced on August 13, and the result turned out to be below the market estimate. In reaction, market participants sold the U.S. dollar, and the U.S. dollar/Thai baht exchange rate fell below the THB 35 mark. On August 14, the media reported that the Constitutional Court of Thailand had decided to remove Prime Minister Srettha Thavisin from office, which fueled a sense of uncertainty in the market. As a consequence, the U.S. dollar/Thai baht exchange rate once rose to the lower-THB 35 level. However, the exchange fell again thereafter. On the same day, the July CPI of the U.S. was announced, and the result turned out to be almost as had been anticipated in the market. Then, on August 15, the July retail sales figure of the U.S. and the number of new unemployment insurance claims were announced, and both results turned out to be stronger than the market estimates. However, the U.S. dollar/Thai baht exchange rate continued fluctuating in the range between THB 35 and the lower-THB 35 level. On August 16, Paetongtarn Shinawatra, leader of the Pheu Thai Party, was nominated as the new prime minister of Thailand. However, there was no remarkable reaction in the market. Thereafter, the U.S. dollar/Thai baht exchange rate fell below the THB 35 level again, as long-term interest rates in the U.S. continued falling.

At the end of the month, Asian currencies strengthened against the U.S. dollar. Under such circumstances, the U.S. dollar/Thai baht exchange rate fell to the lower-THB 34 level. On August 21, the central bank of Thailand decided to maintain its policy interest rate at the existing level. However, as this decision had been anticipated in the market, there was little impact. The U.S. dollar/Thai baht exchange rate continued falling with expectation for policy interest rate cuts in the U.S., waiting for the Jackson Hole Economic Symposium scheduled for August 23. Once Federal Reserve Board (FRB) Chair Jerome Powell made a remark to almost confirm the plan to cut the policy interest rate in September, interest rates in the U.S. fell, and market participants started to sell the U.S. dollar. Following this trend, the U.S. dollar/Thai baht exchange rate started to fall in an accelerated manner, and once fell below the THB 34 level. However, such a trend did not last for a long time. Toward the end of the month, the U.S. dollar/Thai baht exchange rate has been fluctuating at around the THB 34 level.

2. Outlook for This Month

Even though the U.S. dollar is expected to remain weak in September, the U.S. dollar/Thai baht exchange rate is forecast to fall only to a limited extent.

The Jackson Hole Economic Symposium was held, attracting substantial attention in the market, and FRB Chair Jerome Powell made a remark to almost confirm the decision to cut the policy interest rate at the Federal Open Market Committee (FOMC) meeting in September. In reaction, market participants started selling the U.S. dollar. However, since the policy interest rate cut in September had been almost entirely reflected in the market before the FOMC meeting, the U.S. dollar-selling now seems to have exceeded the appropriate level from a short-term perspective. Market participants thus may start buying back the U.S. dollar, depending on the figures in the U.S. economic indices to be released in the times ahead.

The political situation in Thailand remains a negative factor for the Thai baht exchange market. The dismissal of the former prime minister of Thailand was a surprise even in Thailand. Thanks to the nomination of the new prime minister, there was no division in the coalition party that was a source of concern. However, after the general election held in May last year, it took three months for a new government to be formed, delaying the implementation of the budget, leading to an economic slowdown. In the times ahead, it is likely for the new government to take some more time to start functioning. The extended political uncertainty can impact the economy, which we should keep in mind. It is also worth mentioning that the Constitutional Court of Thailand dismissed the former prime minister for the ambiguous reason of an ethics violation. Such political intervention by the judiciary can impact investors' attitudes in a negative manner.

In terms of the monetary policy of the central bank, the August Monetary Policy Committee (MPC) statement did not mention any new factor for deciding on future monetary policy. However, it is important to continue observing the outcome of the change of the prime minister, particularly by looking at the progress of the digital wallet scheme—the main policy of former Prime Minister Srettha Thavisin. Even though the new government is to follow the same initiative, some media outlets have reported that the scheme may be modified or replaced by cash benefits only for lower-income earners, depending on the situation. If the budget for this scheme is reduced significantly, the issues of the lack of financial resources and public debts would be resolved, mitigating concerns over inflation. In such a case, the central bank is likely to cut its policy interest rate. However, the next MPC meeting is scheduled for October 16, after the outcome of the FOMC meeting in September has been confirmed. Thus, it is unlikely for the central bank of Thailand to change its stance within the small window.

For these reasons, the most likely trend is the depreciation of the U.S. dollar, while the U.S. dollar/Thai baht exchange rate is likely to fall only to a limited extent.

Kazuhiro Suzuki, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – September 2024

Expected Ranges **Against the US$: MYR 4.23–4.40**
Against the yen: JPY 33.00–34.30

1. Review of the Previous Month

In August, the Malaysian ringgit appreciated against the U.S. dollar to the highest level observed since February 2023. The U.S. dollar/Malaysian ringgit exchange market opened trading at around the MYR 4.59 level—the monthly high for the Malaysian ringgit. In reaction to the dovish outcome of the Federal Open Market Committee (FOMC) meeting in the U.S. and U.S. dollar-selling based on actual demand from domestic exporting companies, the U.S. dollar/Malaysian ringgit exchange rate fell below the MYR 4.5 mark on August 2, despite the fact that the July employment statistics of the U.S. were to be released on the same day during the night. Thereafter, the July employment statistics of the U.S. were released, attracting substantial attention in the market, and both headline and average hourly earnings did not reach the market estimate, while the unemployment rate rose. As a result, the U.S. dollar weakened after market opening on August 5. However, stock prices started to fall due to concerns over an economic slowdown in the U.S., which led the U.S. dollar to rally. On August 7, the U.S. dollar/Malaysian ringgit exchange rate rose to the MYR 4.51 level—the weekly high. It seemed that the exchange rate would remain high until the end of the week. However, toward the end of the week, optimistic views on the Malaysian economy brought back the trend from the previous week, and the U.S. dollar/Malaysian ringgit exchange rate fell to the MYR 4.42 level.

In the week commencing on August 12, the appreciation of the Malaysian ringgit slowed down, and the U.S. dollar/Malaysian ringgit exchange rate rallied temporarily, as the Producer Price Index (PPI) and Consumer Price Index (CPI) of the U.S. were to be announced in the week. Thereafter, the media reported that the U.S. military had sent an aircraft carrier to the Middle East, raising geopolitical risks. As a result, the U.S. dollar/Malaysian ringgit exchange rate rose to approach the MYR 4.47 level on August 13. However, thereafter, the July PPI of the U.S. did not reach the market estimate, while the Federal Reserve Board (FRB) officials made dovish remarks. Consequently, interest rates in the U.S. fell, and the U.S. dollar/Malaysian ringgit exchange rate also fell to the MYR 4.42 level. The July CPI of the U.S., which was gathering attention, did not reach the market estimate either. However, the U.S. dollar/Malaysian ringgit exchange rate remained stable, as concerns over the situation in the Middle East were mitigated while other economic indices in the U.S., such as the July retail sales figure, turned out to be stronger than the market estimate. On August 16, the confirmed figure for the second-quarter GDP of Malaysia turned out to be +5.9%—even higher than the preliminary figure. Yet, market participants bought the Malaysian ringgit only to a limited extent, as interest rates in the U.S. were on a rise. Then, on August 19, the July trade statistics of Malaysia were released, and both imports and exports recorded accelerated positive growth. Expectations grew over the economic outlook of Malaysia, and the Malaysian ringgit strengthened against the U.S. dollar. The U.S. dollar/Malaysian ringgit exchange rate thus reached the MYR 4.38 level. Thereafter, market participants actively sold the U.S. dollar in reaction to downward revision to the U.S. employment statistics. As a result, the U.S. dollar/Malaysian ringgit exchange rate once approached the MYR 4.35 level—the highest rate for the Malaysian ringgit since February 2023. However, the appreciation of the Malaysian ringgit slowed down at around this level, and the U.S. dollar/Malaysian ringgit exchange rate rallied immediately.

At the Jackson Hole Economic Symposium, FRB Chair Jerome Powell made a speech to imply a policy interest rate cut in September, and this was also in line with the minutes of the FOMC meeting held in July. As a result, in the last week of the month, the U.S. dollar/Malaysian ringgit exchange rate remained low at around the MYR 4.35 level. On August 26 and after, the U.S. dollar/Malaysian ringgit exchange rate fell below the MYR 4.35 level several times. On August 29, the appreciation of the Malaysian ringgit accelerated further, thanks to foreign investor capital flow into Malaysia. Toward the end of the month, the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 4.31 level, renewing by far the lowest rate of the year.

2. Outlook for This Month

In September, the U.S. dollar/Malaysian ringgit exchange rate is forecast to continue falling.

In August, the Malaysian ringgit appreciated against the U.S. dollar by 6.25% compared to the end of July, thanks to both positive factors for the Malaysian ringgit and negative factors for the U.S. dollar. Among major Asian currencies, the Malaysian ringgit has been the strongest one against the U.S. dollar (as of the time at which this article is being written).

Looking from the perspective of the Malaysian ringgit, market participant sentiment toward Malaysia has clearly changed since the first and second quarters in 2024. Furthermore, various economic indices have confirmed the appreciation of the Malaysian ringgit. The healthy growth of the GDP of Malaysia is supported by personal consumption, which accounts for approximately two thirds of the GDP. The strong personal consumption is also supporting the manufacturing and service industries in Malaysia, creating a positive cycle. While the government of Malaysia expect the GDP growth rate for FY2024 to be 4–5%, the simple average of the first half of the year has already exceeded the upper end of the government outlook, albeit slightly. The domestic price level has been low and stable, while economic growth has been steady. Thus, the Malaysian economy is expected to continue growing steadily in the second half of the FY2024. Furthermore, Malaysia has been attracting funds from foreign investors, and this is also likely to encourage market participants to continue buying the Malaysian ringgit for a while.

From the perspective of the U.S. dollar, it has already been a consensus that the FOMC will cut its policy interest rate at its September meeting. The speech by FRB Chair Jerome Powell at the Jackson Hole Economic Symposium was completely different from that of last year, almost confirming that the U.S. has already been in the phase of policy interest rate cuts. Furthermore, according to the contents of the minutes of the FOMC meeting held in July as well, the great majority of FOMC members see a policy interest rate cut at the next FOMC meeting in September to be appropriate if the economic indices are generally as expected. This is another reason for the U.S. dollar to weaken in the times ahead.

However, given that the U.S. dollar/Malaysian ringgit exchange rate is falling at such a fast rate, it is also possible for the exchange rate to jump more significantly than other currencies when the trend is reversed. Market participants should keep in mind that the U.S. dollar/Malaysian ringgit may jump up when there is an important event, although the appreciation of the Malaysian ringgit is the most-likely scenario for September.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – September 2024

Expected Ranges **Against the US$: IDR 15,300–15,750**
Against the yen: JPY 0.9091–0.9615 (IDR 100)

1. Review of the Previous Month

In August, the Indonesian rupiah appreciated significantly against the U.S. dollar.

On August 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 16,200 level, with a weaker U.S. dollar and a stronger Indonesian rupiah compared to the previous day, as the outcome of the Federal Open Market Committee (FOMC) meeting and the press conference of the Federal Reserve Board (FRB) Chair Jerome Powell, both held on the previous day local time in the U.S., were considered dovish in the market. On the same day, the July Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be +2.13% year-on-year, falling below the market estimate. Immediately after the announcement, market participants sold the Indonesian rupiah, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 16,200 level. However, the market calmed down thereafter, and toward August 2, the following day, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range mainly at the mid-MYR 16,200 level. On August 5, the April–June quarter period GDP of Indonesia was announced, and the result turned out to be +5.05% year-on-year—almost as was expected by monetary authorities and market participants. Thus, there was little reaction in the market to this announcement. Thereafter, the U.S. dollar depreciated, while foreign investor funds flew into Indonesia. Thus, market participants actively bought the Indonesian rupiah, and the Indonesian rupiah strengthened against the U.S. dollar in an accelerated manner during the second half of the week. As a result, the U.S. dollar/Indonesian rupiah exchange rate once reached the upper-IDR 15,800 level on August 8. However, at this level, some market participants also actively sold the Indonesian rupiah, and the U.S. dollar/Indonesian rupiah continued fluctuating at around the IDR 15,900 level toward August 13, the following week. On August 13 local time in the U.S., the July Producer Price Index (PPI) of the U.S. was announced, and the result turned out to be below the market estimate. In reaction, market participants started selling the U.S. dollar in an accelerated manner. As a result, the U.S. dollar weakened against the Indonesian rupiah, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 15,700 level on August 14, Furthermore, the budget plan for the next fiscal year was submitted in Indonesia, and the deficit level was smaller than the outlook that was previously released. This was also a supporting factor for the Indonesian rupiah. Under such circumstances, on August 19 in the following week, the Indonesian rupiah strengthened further, and the U.S. dollar/Indonesian rupiah reached the mid-IDR 15,400 level. Then, on August 21, the central bank of Indonesia held a monetary policy meeting, and the policy interest rate was maintained at the existing level, as had been anticipated by the majority of market participants. After the meeting, the governor of the central bank of Indonesia, Perry Warjiyo, stated at the press conference that a policy interest rate cut might be considered for the October–December quarter period, as was the case at the meeting held in July. This denied the view of some market participants, who expected the policy interest rate cut to happen earlier based on the recent appreciation of the Indonesian rupiah. Then, on August 22, there was a large-scale protest in Indonesia, increasing the level of uncertainty over the political situation in the country. As a result, the Indonesian rupiah weakened, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 15,600 level. However, on

August 23 local time in the U.S., FRB Chair Jerome Powell gave a speech at the Jackson Hole Economic Symposium and stated that it was now time to change the monetary policy. This made market participants certain of a U.S. policy interest rate cut in September. Under such a condition, market participants started to sell the U.S. dollar again, and on August 26, the Indonesian rupiah appreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate temporarily approached the IDR 15,300 level. Thereafter, U.S. dollar-selling slowed down, and the U.S. dollar/Indonesian rupiah exchange rate once returned to the IDR 15,500 level. However, toward the end of the month, the U.S. dollar/Indonesian rupiah approached the IDR 15,400 level, at which level trading closed in August.

2. Outlook for This Month

In September, the Indonesian rupiah is forecast to weaken against the U.S. dollar.

The central bank of Indonesia decided to maintain its policy interest rate at the existing level at its monetary policy meeting held in August. Although it is very likely for the FRB to start cutting its policy interest rate in September, the central bank of Indonesia maintains its outlook that the policy interest rate cut in Indonesia would occur in the October–December quarter period. This may be a reflection of the central bank's intention to make sure of the stability of the Indonesian rupiah even after the policy interest rate cut in the U.S. If the policy interest rate cuts in Indonesia are slower than those in the U.S., it can be a factor to strengthen the Indonesian rupiah against the U.S. dollar. Furthermore, interest rates in Indonesia remain high, which is likely to attract foreign investors. Thus, capital inflow based on securities investment can also contribute to the stability of the Indonesian rupiah.

On the other hand, in the U.S., it is seen almost certain that the FOMC will cut its policy interest rate at the September meeting. However, there are divided opinions about by how much the policy interest rate will be cut. Because some market participants expect the policy interest rate to be cut by 0.5%, if the policy interest rate is cut only by 0.25%, the U.S. dollar is likely to appreciate. FRB Chair Jerome Powell stated that the labor market would be an important factor, and unemployment is currently 4.3%, which is not too high by any means. Furthermore, after the FOMC meeting held in July, FRB Chair Jerome Powell stated at the press conference that he was not thinking about a policy interest rate cut of 0.5%. Thus, it is most likely for the FRB to cut its policy interest rate by 0.25% in September. If the decision at the September meeting was really a policy interest rate cut of 0.25%, the U.S. dollar is expected to appreciate against the Indonesian rupiah in order to correct the overheated expectation.

There are certainly some positive factors for the Indonesian rupiah, such as the central bank's plan to cut its policy interest rate and capital inflow based on securities investment. However, the Indonesian rupiah is forecast to continue depreciating against the U.S. dollar in the times ahead in reaction the policy interest rate cut in the U.S.

Shunsuke Fukuda, Manila Treasury Office, Asia & Oceania Treasury Department

Philippine Peso – September 2024

Expected Ranges **Against the US$: PHP 55.50–57.00**
Against the yen: PHP 0.380–0.400

1. Review of the Previous Month

In August, the Philippine peso appreciated against the U.S. dollar almost one-sidedly.

In August, the U.S. dollar/Philippine peso exchange market opened trading at PHP 58.32. After the monetary policy meetings both in the U.S. and Japan, trends changed significantly in the foreign exchange, stock, and interest rate markets in many countries. Long-term interest rates fell significantly in the U.S., encouraging market participants to sell the U.S. dollar globally. Following this trend, the Philippine peso also appreciated against the U.S. dollar. At the beginning of the month, the Philippine peso continued appreciating against the U.S. dollar for eight consecutive business days, and the U.S. dollar/Philippine peso exchange rate fell below the PHP 58 mark, falling further to the lower-PHP 57 level. In the meantime, the July Consumer Price Index (year-on-year CPI) of the Philippines was announced on August 6, and the result turned out to be +4.4%, stronger than +4.1%—the market estimate. Before this announcement, market participants had expected the policy interest rate of the Philippines to be cut in August. However, after the announcement, this expectation was withdrawn. In reaction to the announcement, market participants paid extra attention to the April–June quarter period GDP of the Philippines (year-on-year), the result of which turned out to be +6.3%, as had been expected in the market. The previous figure (+5.7%) was also revised upward to +5.8%—a strong figure.

In the middle of August, the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range at around the PHP 57 level, waiting for the monetary policy meeting of the central bank of the Philippines. In the Philippines, the interest rate futures market has not been developed, and thus it is often extremely uncertain whether the policy interest rate will be maintained at the existing level or cut until the announcement. Under such circumstances, market participants continue adjusting their positions. In the end, the central bank of the Philippines decided to cut its policy interest rate by 0.25%. However, thereafter, the governor of the central bank, Eli Remolona, implied the possibility of another policy interest rate cut before the end of the year at a press conference.

Toward the end of August, the appreciation of the Philippine peso accelerated, and the U.S. dollar/Philippine peso exchange rate fell to the lower-PHP 56 level. At the Jackson Hole Economic Symposium, a U.S. policy interest rate cut in September became almost a certainty based on a series of remarks by central bank governors and officials. In reaction, market participants sold the U.S. dollar globally. Following this trend, the U.S. dollar/Philippine peso exchange rate also approached its low. In the end, the U.S. dollar/Philippine peso exchange market saw a monthly high for the U.S. dollar at the beginning of the month, and the U.S. dollar/Philippine peso exchange rate fluctuated at around the monthly high for the Philippine peso toward the end of the month.

2. Outlook for This Month

In September, the U.S. dollar/Philippine peso exchange market is forecast to follow the outcome of the policy

interest rate cut in the U.S. and plans for future monetary policy.

In August, there were clear differences in the monetary policies of various countries. Even though this had been anticipated, there were some market fluctuations, mainly in Asian stock markets. Under such circumstances, the stock and foreign exchange markets in the Philippines were relatively stable compared to other countries in Asia. However, the Philippine peso strengthened against the U.S. dollar. Before the decision by the Federal Open Market Committee (FOMC) in the U.S., the central bank of the Philippines decided to cut its policy interest rate. Yet, there has been no major upset in the economic indices of the Philippines. It is considered that the central bank of the Philippines decided to cut its policy interest rate at this opportunity in August, in order to boost domestic demand, as inflation pressure is expected to weaken in the times ahead—and since the next opportunity would not come until the monetary policy meeting scheduled for October.

On the other hand, it has become almost certain for the FOMC in the U.S. to cut its policy interest rate at the meeting in September. There were divided opinions on whether the policy interest rate will be cut by 0.25% or 0.50%. Thus, during the first half of September, the U.S. dollar/Philippine peso exchange rate is expected to fluctuate within a narrow range, adjusting to the U.S. economic indices and interest rates in the U.S. Because the Philippine peso seems to have appreciated against the U.S. dollar slightly and too early, the U.S. dollar/Philippine peso exchange rate is likely to fluctuate mainly at the PHP 56 level for the time being. However, depending on U.S. economic indices, it is possible for the exchange rate to temporarily fall to the PHP 55 level.

Toward the second half of September, market participants are expected to actively adjust their positions, paying close attention to remarks by government officials regarding a possible policy interest rate cut at the monetary policy meeting in the Philippines scheduled for October. As a result, the U.S. dollar/Philippine peso exchange rate may fluctuate violently, as was seen in August. It is also important to mention that the presidential election in the U.S. may impact the U.S. dollar/Philippine peso exchange market in the times ahead, although it has not attracted much attention in the market just yet.

It is likely for the U.S. dollar/Philippine peso exchange rate to move in both directions, depending on changes to the monetary policy in the U.S. and the Philippines, while seeking a point at which to stabilize.

Shuhei Watahiki, India Treasury Office, Asia & Oceania Treasury Department

Indian Rupee – September 2024

Expected Ranges **Against the US$: INR 83.20–84.10**
Against the yen: JPY 1.69–1.82

1. Review of the Previous Month

In August, the Indian rupee remained weak against the U.S. dollar, and the U.S. dollar/Indian rupee exchange rate continued fluctuating in a narrow range throughout the month.

The U.S. dollar/Indian rupee exchange market opened trading in August at the upper-INR 83.60 level. At the beginning of the month, there was some pressure to sell the U.S. dollar, and this strengthened other currencies substantially. However, in the U.S. dollar/Indian rupee exchange market, the Reserve Bank of India (RBI) intervened by buying the U.S. dollar and selling the Indian rupee in order to keep the U.S. dollar/Indian rupee exchange from falling. As a result, the Indian rupee ended up depreciating, renewing the lowest rate against the U.S. dollar. In the middle of the month, the U.S. dollar/Indian rupee exchange rate continued fluctuating at the same level with a weak Indian rupee. At the end of the month, the U.S. dollar/Indian rupee exchange rate did not rise further due to transactions based on actual demand, as well as foreign exchange market interventions by the RBI through U.S. dollar-selling and Indian rupee-buying for the purpose of keeping the U.S. dollar/Indian rupee exchange from rising too much. However, the Indian rupee has not appreciated excessively either, and the U.S. dollar/Indian rupee exchange rate continued fluctuating within a limited range. In the end, the U.S. dollar/Indian rupee exchange rate closed trading at the INR 83.90 level (as of August 23).

At the beginning of the month, the BSE SENSEX opened trading at around the 82,000 level, after which it fell sharply below the 80,000 mark, even falling below the 79,000 level, as stock prices fell globally. Thereafter, the BSE SENSEX was stable at this level. Toward the end of the month, it rallied gradually and recovered to the 81,000 level again (as of August 23). Since the beginning of the month, there had been a net sell in terms of investment capital inflow into the Indian stock market from foreign investors. However, capital inflow is now returning to India.

With regard to Indian economic indices, the July manufacturing and service PMI recorded a slight decline. The June industrial production fell below the market estimate (the previous figure was revised upward). At the August Monetary Policy Committee (MPC) meeting, the policy interest rate of India was maintained at the existing level (6.50%) for the ninth consecutive time. The voting result was four against two, which was the same as the result at the previous meeting. The July Consumer Price Index (CPI year-on-year) turned out to be +3.54%, recording a significant fall from +5.08%—the result of the previous month. The July trade balance revealed a growth in the trade deficit, confirming the constant deficit, which is a constant factor to keep the Indian rupee a weak currency.

2. Outlook for This Month

In September, the U.S. dollar/Indian rupee exchange rate is forecast to struggle to reach the INR 84 level, a psychological turning point.

In September, the Indian rupee is forecast to remain weak against the U.S. dollar. However, the U.S. dollar/Indian rupee exchange rate is likely to struggle reaching the INR 84 mark. In August, there was pressure to sell the U.S. dollar, against which the RBI intervened in the market several times by buying the U.S. dollar and selling the Indian rupee in order to keep the U.S. dollar/Indian rupee exchange rate from falling further. As a result, the Indian rupee renewed its lowest rate against the U.S. dollar. On the other hand, the RBI also continued intervening in the foreign exchange market to keep the Indian rupee from depreciating excessively. Thus, market participants should keep in mind that the U.S. dollar/Indian rupee exchange rate is likely to struggle to reach the INR 84 mark.

At the MPC meeting in August, the policy interest rate in India was maintained at 6.50%, and the voting result was the same as the previous meeting (there were the same number of votes for a policy interest rate cut as at the previous meeting). It is therefore most likely for the MPC to cut the policy interest rate by 25 basis points toward the second half of the year. On the other hand, the RBI revised the CPI outlook upward, which fueled concerns about the possibility for the policy interest rate cut in India to be postponed. Under such circumstances, the July CPI turned out to be significantly lower than the previous month's figure, falling below 4.0%—the inflation target. However, it is also important to point out that the July CPI from last year was measured after the sharp price increase caused by bad weather. Thus, there may be some base effect on this year's July CPI. The RBI is not likely to advance its policy interest rate cut solely on the basis of numerical data, as it is now the time to see if the inflation target has been achieved based on inflation trends without base effects.

With regard to stock and bond markets in India, the Indian bond market remained robust in August, while there was a net sell in the Indian stock market due to the global stock slump. However, investment capital started to gradually return to India thereafter. The most-likely scenario is the Indian rupee to appreciate against the U.S. dollar in the second half of the year, as the U.S. will enter a phase of policy interest rate cuts. However, it is not likely for the pressure to sell the U.S. dollar to one-sidedly strengthen. Market participants should keep in mind that there may be some temporary fluctuation in the U.S. dollar/Indian rupee exchange market, based on the monetary policy of the U.S. and India, as well as on headlines related to the U.S. presidential election that are to be seen in the times ahead. In the longer term, the Indian rupee is expected to start weakening against the U.S. dollar again, as a result of RBI intervention in the foreign exchange market as well as due to outflows (Indian rupee-selling) based on actual demand.